

## Auditing Procedures Report

Issued under P A 2 of 1968, as amended and P A 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Waldron	County Hillsdale
Fiscal Year End February 28, 2006	Opinion Date May 12, 2006	Date Audit Report Submitted to State August 30, 2006	

We affirm that

We are certified public accountants licensed to practice in Michigan

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail )

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P A 275 of 1980) or the local unit has not exceeded its budget for expenditures
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Willis & Jurasek, P.C.	Telephone Number (517) 788-8660		
Street Address 2545 Spring Arbor Road, Suite 200	City Jackson	State MI	Zip 49203
Authorizing CPA Signature F. Roger Mack	Printed Name F. Roger Mack	License Number 110102342	

# **Village of Waldron**

Financial Statements  
And Independent Auditors' Report

Year Ended February 28, 2006

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## **Independent Auditors' Report**

Village Council  
Village of Waldron  
Waldron, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Waldron as of and for the year ended February 28, 2006, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Village of Waldron as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 12, 2006, on our consideration of the Village's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Village of Waldron has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the financial statements.

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### **WILLIS & JURASEK, P.C.**

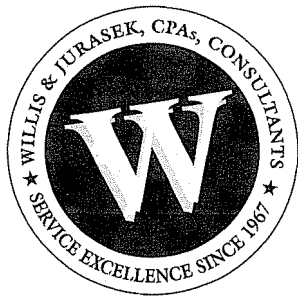
2545 Spring Arbor Road  
Post Office Box 39  
Jackson, Michigan 49204-0039

The budgetary comparison information on page 21 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

May 12, 2006



**Reporting Based on an Audit of Financial Statements  
Performed in Accordance With  
Government Auditing Standards**

Village Council  
Village of Waldron  
Waldron, Michigan

We have audited the financial statements of the governmental activities, business-type activities and each major fund of the Village of Waldron as of and for the year ended February 28, 2006, which collectively comprise the Village of Waldron's basic financial statements and have issued our report thereon dated May 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Village Council, and State agencies, and is not intended to be and should not be used by anyone other than those specified parties.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

May 12, 2006

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**WILLIS & JURASEK, P.C.**

2545 Spring Arbor Road  
Post Office Box 39  
Jackson, Michigan 49204-0039

**Village of Waldron**  
Statement of Net Assets  
February 28, 2006

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash	\$ 345,683	\$ 216,799	\$ 562,482
Accounts receivable	-	11,611	11,611
Taxes receivable	6,687	-	6,687
Due from other governmental units	29,524	-	29,524
Restricted assets	-	59,704	59,704
Capital assets:			-
Non-depreciable assets	7,500	8,331	15,831
Depreciable assets, net	94,426	1,972,969	2,067,395
Total assets	<u>483,820</u>	<u>2,269,414</u>	<u>2,753,234</u>
<b>Liabilities:</b>			
Other current liabilities	1,911	9,642	11,553
Non-current liabilities:			-
Due within one year	-	6,300	6,300
Due in more than one year	-	630,200	630,200
Total liabilities	<u>1,911</u>	<u>646,142</u>	<u>648,053</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	101,926	1,335,158	1,437,084
Restricted for:			
Debt service	-	59,704	59,704
Unrestricted	379,983	228,410	608,393
Total net assets	<u>\$ 481,909</u>	<u>\$ 1,623,272</u>	<u>\$ 2,105,181</u>

See Notes to Financial Statements.

**Village of Waldron**  
Statement of Activities  
Year Ended February 28, 2006

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
General government	\$ 109,813	\$ -	\$ -	\$ -	\$ (109,813)	\$ -	\$ (109,813)
Public safety	16,197	-	-	-	(16,197)	-	(16,197)
Public works	142,736	-	56,845	-	(85,891)	-	(85,891)
Recreation and culture	8,447	-	-	-	(8,447)	-	(8,447)
Total governmental activities	<u>277,193</u>	<u>-</u>	<u>56,845</u>	<u>-</u>	<u>(220,348)</u>	<u>-</u>	<u>(220,348)</u>
<b>Business-type Activities:</b>							
Water	70,415	71,894	-	-	-	1,479	1,479
Sewer	138,700	79,152	-	34,399	-	(25,149)	(25,149)
Total business-type activities	<u>209,115</u>	<u>151,046</u>	<u>-</u>	<u>34,399</u>	<u>-</u>	<u>(23,670)</u>	<u>(23,670)</u>
Total primary government	<u>\$ 486,308</u>	<u>\$ 151,046</u>	<u>\$ 56,845</u>	<u>\$ 34,399</u>	<u>(220,348)</u>	<u>(23,670)</u>	<u>(244,018)</u>
<b>General Revenues:</b>							
Property taxes, levied for general purposes					69,879	-	69,879
Interest and investment earnings					6,575	4,601	11,176
Unrestricted grants and contributions					65,136	-	65,136
Miscellaneous					15,495	5,270	20,765
Total general revenues and transfers					<u>157,085</u>	<u>9,871</u>	<u>166,956</u>
<b>Change in Net Assets</b>					(63,263)	(13,799)	(77,062)
<b>Net Assets - Beginning of Year</b>					545,172	1,637,071	2,182,243
<b>Net Assets - End of Year</b>					\$ 481,909	\$ 1,623,272	\$ 2,105,181

See Notes to Financial Statements.



**Village of Waldron**  
Balance Sheet  
Governmental Funds  
February 28, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<b><u>Assets</u></b>				
Cash	\$ 226,915	\$ 97,217	\$ 21,551	\$ 345,683
Receivables:				
Taxes receivable	6,687	-	-	6,687
Due from other governmental units	19,750	7,695	2,079	29,524
Total assets	<u>\$ 253,352</u>	<u>\$ 104,912</u>	<u>\$ 23,630</u>	<u>\$ 381,894</u>
<b><u>Liabilities and Fund Balances</u></b>				
Liabilities:				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Other liabilities	1,911	-	-	1,911
Total liabilities	<u>1,911</u>	<u>-</u>	<u>-</u>	<u>1,911</u>
Fund Balances:				
Unrestricted	251,441	104,912	23,630	379,983
Total fund balances	<u>251,441</u>	<u>104,912</u>	<u>23,630</u>	<u>379,983</u>
Total liabilities and fund balances	<u>\$ 253,352</u>	<u>\$ 104,912</u>	<u>\$ 23,630</u>	<u>\$ 381,894</u>

## Village of Waldron

### Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets February 28, 2006

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 379,983</b>
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Amounts reported for governmental activities in the Statement  
of Net Assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds.

The cost of the capital assets is

\$ 138,860

Accumulated depreciation is

(36,934)

101,926

<b>Total Net Assets - Governmental Activities</b>	<b><u>\$ 481,909</u></b>
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**Village of Waldron**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended February 28, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<b>Revenues:</b>				
Taxes	\$ 69,879	\$ -	\$ -	\$ 69,879
Intergovernmental	65,136	40,221	16,624	121,981
Interest and rentals	4,966	1,609	-	6,575
Other revenue	15,495	-	-	15,495
Total revenues	<u>155,476</u>	<u>41,830</u>	<u>16,624</u>	<u>213,930</u>
<b>Expenditures:</b>				
General government	105,253	-	-	105,253
Public safety	16,197	-	-	16,197
Public works	8,660	85,307	44,172	138,139
Recreation and culture	8,447	-	-	8,447
Total expenditures	<u>138,557</u>	<u>85,307</u>	<u>44,172</u>	<u>268,036</u>
<b>Revenues Over (Under) Expenditures</b>	<u>16,919</u>	<u>(43,477)</u>	<u>(27,548)</u>	<u>(54,106)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	7,528	13,709	21,237
Transfers out	(11,539)	(9,698)	-	(21,237)
Total other financing sources (uses)	<u>(11,539)</u>	<u>(2,170)</u>	<u>13,709</u>	<u>-</u>
<b>Net Changes in Fund Balances</b>	5,380	(45,647)	(13,839)	(54,106)
<b>Fund Balances - Beginning of Year</b>	<u>246,061</u>	<u>150,559</u>	<u>37,469</u>	<u>434,089</u>
<b>Fund Balances - End of Year</b>	<u>\$ 251,441</u>	<u>\$ 104,912</u>	<u>\$ 23,630</u>	<u>\$ 379,983</u>

See Notes to Financial Statements.

**Village of Waldron**  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities  
Governmental Funds  
Year Ended February 28, 2006

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ (54,106)
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Amounts reported for governmental activities in the Statement  
of Activities are different because:

Governmental funds report capital outlays as expenditures; in the  
Statement of Activities, these costs are allocated over their estimated  
useful lives as depreciation.

Depreciation expense

\$ (9,157)

Capital outlay

-	(9,157)
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**Change in Net Assets of Governmental Activities**

\$ (63,263)

**Village of Waldron**  
Statement of Net Assets  
Proprietary Funds  
February 28, 2006

	<b>Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>Assets:</b>			
Cash	\$ 24,483	\$ 192,316	\$ 216,799
Accounts receivable	5,230	6,381	11,611
Restricted assets	-	59,704	59,704
Capital assets:			
Non-depreciable assets	-	8,331	8,331
Depreciable assets, net	119,415	1,853,554	1,972,969
Total assets	<u>149,128</u>	<u>2,120,286</u>	<u>2,269,414</u>
<b>Liabilities:</b>			
Current liabilities (payable from current assets):			
Accrued interest	-	9,642	9,642
Current portion of bonds payable	-	6,300	6,300
	<u>-</u>	<u>15,942</u>	<u>15,942</u>
Non-current liabilities:			
Bonds payable	-	630,200	630,200
Total liabilities	<u>-</u>	<u>646,142</u>	<u>646,142</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	119,415	1,215,743	1,335,158
Restricted for debt service	-	59,704	59,704
Unrestricted	29,713	198,697	228,410
Total net assets	<u>\$ 149,128</u>	<u>\$ 1,474,144</u>	<u>\$ 1,623,272</u>

See Notes to Financial Statements.

**Village of Waldron**  
Statement of Revenues, Expenses and  
Changes in Net Assets - Proprietary Funds  
Year Ended February 28, 2006

	<b>Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Totals</b>
<b>Operating Revenues:</b>			
Charges for services	\$ 71,894	\$ 79,152	\$ 151,046
<b>Operating Expenses:</b>			
Maintenance and operating	66,915	64,664	131,579
Depreciation	3,500	45,252	48,752
Total operating expenses	70,415	109,916	180,331
<b>Operating Income (Loss)</b>	1,479	(30,764)	(29,285)
<b>Non-operating Revenues (Expenses):</b>			
Capital grants	-	34,399	34,399
Interest income	1,647	2,954	4,601
Miscellaneous income	3,678	1,592	5,270
Interest expense	-	(28,784)	(28,784)
Total non-operating revenues (expenses)	5,325	10,161	15,486
<b>Net Income (Loss)</b>	6,804	(20,603)	(13,799)
<b>Net Assets - Beginning of Year</b>	142,324	1,494,747	1,637,071
<b>Net Assets - End of Year</b>	\$ 149,128	\$ 1,474,144	\$ 1,623,272

**Village of Waldron**  
Statement of Cash Flows  
Proprietary Funds  
Year Ended February 28, 2006

	<b>Enterprise Funds</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>Cash Flows From Operating Activities:</b>			
Operating income (loss)	\$ 1,479	\$ (30,764)	\$ (29,285)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,500	45,252	48,752
Non-operating income	3,678	1,592	5,270
Changes in:			
Accounts receivable	519	109	628
Due from other funds	2,320	31,308	33,628
Net cash provided by operating activities	<u>11,496</u>	<u>47,497</u>	<u>58,993</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Construction of capital assets	-	(69,390)	(69,390)
Principal paid on bonds and notes	-	(6,300)	(6,300)
Interest paid on bonds and notes	-	(28,784)	(28,784)
Capital grant received	-	34,399	34,399
Net cash used by capital and related financing activities	<u>-</u>	<u>(70,075)</u>	<u>(70,075)</u>
<b>Cash Flows From Investing Activities:</b>			
Interest income	<u>1,647</u>	<u>2,954</u>	<u>4,601</u>
Total cash provided by investing activities	<u>1,647</u>	<u>2,954</u>	<u>4,601</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	13,143	(19,624)	(6,481)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>11,340</u>	<u>271,644</u>	<u>282,984</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 24,483</u>	<u>\$ 252,020</u>	<u>\$ 276,503</u>

See Notes to Financial Statements.

**Village of Waldron**  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies**

**Description of Village Operations**

The Village of Waldron operates under a Council form of government and provides services to its residents in many areas including public safety, law enforcement, community enrichment, and development and human service. The criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships.

**Reporting Entity**

Generally accepted accounting principles require the reporting entity to include the Village of Waldron (the primary government).

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-Wide Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.



**Village of Waldron**  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**Fund-Based Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

**General Fund** – This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Street Fund** – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the major street functions of the Village.

**Local Street Fund** – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the local street functions of the Village.

The government reports the following major proprietary funds:

**Water Fund** - The Water Fund accounts for the water production, purification, and distribution systems of the Village.

**Sewer Fund** – The Sewer Fund accounts for the activities of the government's sewage collection and treatment systems.

**Additional Financial Statement Presentation Information** - Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

**Village of Waldron**  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water and sewer enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Deposits and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit. Deposits are carried at cost.

Deposits of the Village are at three banks in the name of the Village of Waldron. Michigan Compiled Laws, Section 129.91 authorizes the Village to deposit and invest in the accounts of Federally insured banks, insured credit unions and savings and loan associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; banker's acceptances of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or Political Subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government of Michigan. Financial institutions eligible for deposit of funds must maintain an office in Michigan. The Village's deposits are in accordance with statutory authority.

**Receivables and Payables** – All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**Restricted Assets** – Certain proceeds of the Enterprise Funds' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

**Village of Waldron**  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (Continued)**

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Vehicles	5 - 10
Equipment	5 – 20
Plant and systems	10 - 50

**Long-Term Obligations** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Property Taxes** - The government's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 30; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Hillsdale County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Village for 2005 had a taxable value of approximately \$6,372,000 (not including properties subject to Industrial Facilities Tax exemption). The government's general operating tax rate for fiscal year 2005-06 was 11.0220 mills.

**Village of Waldron**  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (Continued)**

**Use of Estimates** – The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**2. Stewardship, Compliance and Accountability**

The Village follows these procedures in establishing budgetary data reflected in the financial statements:

- a) The Village submits a proposed operating budget for the fiscal year commencing March 1.
- b) A public hearing is conducted by the Village to obtain taxpayer comments.
- c) The budget is then legally enacted through passage of the appropriations act.
- d) The budget is adopted on the governmental activity basis and control is exercised at the activity level.
- e) The budget for the general fund is prepared on a basis consistent with generally accepted accounting principles.
- f) Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.
- g) Once the budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Village Council. Amendments are presented to the Council at their regular meetings. Each amendment must have Council approval. Such amendments are made before the fact, are reflected in the official minutes of the Village Council, and are not made after fiscal year-end as dictated by law.

**3. Cash and Cash Equivalents**

The balance sheet caption, "Cash" includes demand accounts and certificates of deposit.

At year-end, the Village's deposits were reported in the financial statements in the following categories:

	Governmental Activities	Proprietary Funds	Total
Cash and investments	\$ <u>345,683</u>	\$ <u>276,503</u>	\$ <u>622,186</u>

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, \$380,078 of the Village's bank balance of \$626,867 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Village had no investments at year-end.

**Village of Waldron**  
Notes to Financial Statements

**4. Capital Assets**

Capital assets activity for the year ended February 28, 2006 was as follows:

<b>Primary Government</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals and Adjustments</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 7,500	\$ -	\$ -	\$ 7,500
Total capital assets not being depreciated	7,500	-	-	7,500
Capital assets being depreciated:				
Buildings and improvements	54,000	-	-	54,000
Equipment and vehicles	77,360	-	-	77,360
Total capital assets being depreciated	131,360	-	-	131,360
Accumulated depreciation:				
Buildings and improvements	6,532	1,801	-	8,333
Equipment and vehicles	21,245	7,356	-	28,601
Total accumulated depreciation	27,777	9,157	-	36,934
Total capital assets being depreciated - net	103,583	(9,157)	-	94,426
Governmental activities capital assets - net	\$ 111,083	\$ (9,157)	\$ -	\$ 101,926
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 8,331	\$ -	-	\$ 8,331
Capital assets being depreciated:				
Water system	307,995	-	-	307,995
Sewer system	2,220,261	69,390	-	2,289,651
Total capital assets being depreciated	2,528,256	69,390	-	2,597,646
Accumulated depreciation	575,925	48,752	-	624,677
Total capital assets being depreciated - net	1,952,331	20,638	-	1,972,969
Business-type activities capital assets - net	\$ 1,960,662	\$ 20,638	\$ -	\$ 1,981,300

**Village of Waldron**  
Notes to Financial Statements

**4. Capital Assets (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 4,561
Public works	<u>4,596</u>
Total depreciation expense – governmental activities	<u>\$ 9,157</u>
Business-Type Activities:	
Sewer and Water	<u>\$ 48,752</u>

**5. Receivables**

Receivables of the governmental activities of the primary government at February 28, 2006, consist of the following:

Other governmental units (primarily the State of Michigan)	\$ 29,524
Delinquent taxes	<u>6,687</u>
	<u>\$ 36,211</u>

**6. Interfund Transfers**

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Transfers:</b>		
General	\$ -	\$ 11,539
Major Street	7,528	9,698
Local Street	<u>13,709</u>	<u>-</u>
	<u>\$ 21,237</u>	<u>\$ 21,237</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Village of Waldron**  
Notes to Financial Statements

**7. Long-Term Debt**

The Village issued \$649,000 of revenue bonds dated June 17, 2003 at 4.5% interest to provide funds for the construction of a sewer project. Income derived from the constructed assets will be used to repay the revenue bonds and the debt is recorded in the Sewer Fund.

Enterprise activities - long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds	\$ <u>642,800</u>	\$ <u>-</u>	\$ <u>6,300</u>	\$ <u>636,500</u>	\$ <u>6,300</u>
			<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007			\$ 6,300	\$ 28,900	\$ 35,200
2008			6,400	28,400	34,800
2009			7,500	28,000	35,500
2010			7,500	27,700	35,200
2011			7,600	27,400	35,000
2012-2016			44,200	131,500	175,700
2017-2021			55,500	120,600	176,100
2022-2026			70,200	106,800	177,000
2027-2031			86,700	89,500	176,200
2032-2036			109,000	68,200	177,200
2037-2041			137,500	41,300	178,800
2042-2044			<u>98,100</u>	<u>8,900</u>	<u>107,000</u>
Total			\$ <u>636,500</u>	\$ <u>707,200</u>	\$ <u>1,343,700</u>

**8. Joint Ventures**

The Fire and Ambulance Department is under the joint supervision of the Township of Wright and the Village of Waldron with the books and records being maintained by the Township of Wright. In this joint venture, firemen's salaries are paid 100% by the Township for fire calls in the Township and 100% by the Village for fire calls in the Village. To the extent that other expenditures exceed operating revenues, the Township pays 2/3 of these costs and the Village pays 1/3 of these costs.

**9. Segment Information – Enterprise Funds**

The government issued revenue bonds to finance certain improvements to its sewer distribution and treatment systems. Because the Water and Sewer Funds, which are individual funds that account entirely for the government's water distribution and treatment and sewage disposal and treatment activities, are reported as major funds in the fund financial statements, segment disclosures herein are not required.

**10. Risk Management**

The Village is exposed to various risks of loss-related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries; and natural disasters. The Village has purchased commercial insurance for its risks of loss, including property and casualty, errors and omissions, fleet, and employee health and accident insurance.

## **Required Supplemental Information**



**Village of Waldron**  
Statement of Revenues, Expenditures and Changes  
in Fund Balances - Budget to Actual  
General Fund and Major Special Revenue Funds  
Year Ended February 28, 2006

	General Fund			Major Street Fund			Local Street Fund		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
<b>Revenues:</b>									
Taxes	\$ 66,000	\$ 66,000	\$ 69,879	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	66,101	66,101	65,136	43,413	43,413	40,221	12,580	12,580	16,624
Interest	1,000	1,000	4,966	600	600	1,609	-	-	-
Other	14,825	14,825	15,495	-	-	-	-	-	-
Total revenues	<u>147,926</u>	<u>147,926</u>	<u>155,476</u>	<u>44,013</u>	<u>44,013</u>	<u>41,830</u>	<u>12,580</u>	<u>12,580</u>	<u>16,624</u>
<b>Expenditures:</b>									
Current operations:									
Legislative	3,600	3,600	3,200	-	-	-	-	-	-
General government	121,350	127,350	102,053	-	-	-	-	-	-
Public safety	25,150	25,150	16,197	-	-	-	-	-	-
Public works	7,500	9,000	8,660	134,075	134,075	85,307	36,450	36,450	44,172
Recreation and culture	7,000	8,500	8,447	-	-	-	-	-	-
Total expenditures	<u>164,600</u>	<u>173,600</u>	<u>138,557</u>	<u>134,075</u>	<u>134,075</u>	<u>85,307</u>	<u>36,450</u>	<u>36,450</u>	<u>44,172</u>
<b>Revenues Over (Under) Expenditures</b>	(16,674)	(25,674)	16,919	(90,062)	(90,062)	(43,477)	(23,870)	(23,870)	(27,548)
<b>Other Financing Sources (Uses):</b>									
Transfers in	-	-	-	-	-	7,528	12,653	12,653	13,709
Transfers out	-	-	(11,539)	(11,000)	(11,000)	(9,698)	-	-	-
Total other financing sources (uses)	-	-	(11,539)	(11,000)	(11,000)	(2,170)	12,653	12,653	13,709
<b>Net Changes in Fund Balances</b>	(16,674)	(25,674)	5,380	(101,062)	(101,062)	(45,647)	(11,217)	(11,217)	(13,839)
<b>Fund Balances - Beginning of Year</b>	<u>246,061</u>	<u>246,061</u>	<u>246,061</u>	<u>150,559</u>	<u>150,559</u>	<u>150,559</u>	<u>37,469</u>	<u>37,469</u>	<u>37,469</u>
<b>Fund Balances - End of Year</b>	<u>\$ 229,387</u>	<u>\$ 220,387</u>	<u>\$ 251,441</u>	<u>\$ 49,497</u>	<u>\$ 49,497</u>	<u>\$ 104,912</u>	<u>\$ 26,252</u>	<u>\$ 26,252</u>	<u>\$ 23,630</u>

## **Other Supplemental Information**

**Village of Waldron**  
Schedule of Bonded Indebtedness  
February 28, 2006

Sewage Disposal System Revenue  
Bonds, Series 2003

Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year Interest Requirements	Fiscal Year Principal Requirements	Bonds Outstanding June 30, 2006
June 17, 2003	\$ 649,000	4.500%	05/01/06	\$ 28,926	\$ 6,300	\$ 6,300
		4.500%	05/01/07	28,359	6,400	6,400
		4.500%	05/01/08	28,071	7,500	7,500
		4.500%	05/01/09	27,734	7,500	7,500
		4.500%	05/01/10	27,396	7,600	7,600
		4.500%	05/01/11	27,054	7,700	7,700
		4.500%	05/01/12	26,708	8,800	8,800
		4.500%	05/01/13	26,312	8,800	8,800
		4.500%	05/01/14	25,916	8,900	8,900
		4.500%	05/01/15	25,515	10,000	10,000
		4.500%	05/01/16	25,065	10,100	10,100
		4.500%	05/01/17	24,611	10,200	10,200
		4.500%	05/01/18	24,152	11,300	11,300
		4.500%	05/01/19	23,643	11,400	11,400
		4.500%	05/01/20	23,130	12,500	12,500
		4.500%	05/01/21	22,568	12,600	12,600
		4.500%	05/01/22	22,001	13,700	13,700
		4.500%	05/01/23	21,384	13,800	13,800
		4.500%	05/01/24	20,763	15,000	15,000
		4.500%	05/01/25	20,088	15,100	15,100
		4.500%	05/01/26	19,409	16,200	16,200
		4.500%	05/01/27	18,680	16,400	16,400
		4.500%	05/01/28	17,942	17,500	17,500
		4.500%	05/01/29	17,154	17,700	17,700
		4.500%	05/01/30	16,358	18,900	18,900
		4.500%	05/01/31	15,507	20,000	20,000
		4.500%	05/01/32	14,607	21,200	21,200
		4.500%	05/01/33	13,653	21,400	21,400
		4.500%	05/01/34	12,690	22,600	22,600
		4.500%	05/01/35	11,673	23,800	23,800
		4.500%	05/01/36	10,602	25,000	25,000
		4.500%	05/01/37	9,475	26,300	26,300
		4.500%	05/01/38	8,294	27,500	27,500
		4.500%	05/01/39	7,056	28,700	28,700
		4.500%	05/01/40	5,765	30,000	30,000
		4.500%	05/01/41	4,413	31,300	31,300
		4.500%	05/01/42	3,004	32,600	32,600
		4.500%	05/01/43	1,537	34,200	34,200
						<u>\$ 636,500</u>



May 12, 2006

Members of Village Council  
Village of Waldron  
Waldron, Michigan

We have audited the financial statements of the Village of Waldron for the year ended February 28, 2006, and have issued our report thereon dated May 12, 2006.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note 1 to the financial statements. No new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the Village during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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**WILLIS & JURASEK, P.C.**

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#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no material estimates recorded during the current year.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village's financial reporting process (that is, cause future financial statements to be materially misstated). There were no significant audit adjustments recorded at year end.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information and the attached memorandum is intended solely for the use of the Village Council and management of the Village and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

**Village of Waldron**  
Comments and Recommendations  
Year Ended February 28, 2006

Prior Year Comments

Most of prior year comments have been addressed. With the new accounting software package you are implementing the correct chart of accounts. Some refinements can be made as you get more fully integrated with the software packages.

Budgets have been adopted for the required funds reflected in this audit report.

Budget to Actual Results

During the year ended February 28, 2006 there was one area where actual expenditures exceeded final budgets amounts. Monthly or quarterly analysis of the budget to actual results would help eliminate this situation.

Segregation of Duties

You have addressed the situation of segregation of duties to an extent possible by small governmental units. However, given the size of your Village complete segregation of duties will be hard to achieve. The Council needs to always be mindful of this condition and establish control procedures as best to handle this area.